

## **Overview of the Fiscal Year 2005 Budget**

### **Total FY05 State Budget**

As passed by the Legislature, the FY05 total budget is approximately \$17.5 billion, including \$6.8 billion in State General Fund.

The budget increased approximately \$600 million from the FY04 existing operating budget (EOB) of \$16.9 billion. The increase is split almost evenly between a growth of about \$300 million in both the State General Fund and the various statutory dedications.

Federal funding decreased in FY05 as compared to FY04. In FY04, the state received a large influx of federal dollars when Congress provided the states with general and Medicaid fiscal relief packages. Such funding was not continued for FY05.

Since 1996, the state budget has grown by approximately \$5 billion. The upcoming budget represents growth at a rate slightly less than the annual average growth over the last eight years.

### **The FY 2005 Executive Budget as Proposed**

When the budget was proposed in February, there was a \$564 million shortfall in revenues to meet continuation expenditure needs. House Bill No. 1 (HB 1), the General Appropriation Bill, contained two primary supplemental sections: one section was contingent on the renewal of the sales tax on business utilities, and the second section was contingent on an increase in the deposits allowed into the State General Fund from mineral revenues.

For the most part, items funded through the supplemental sections were scattered throughout the Executive Budget in an amount that equates to approximately 7 percent for each department where applicable. In most cases, this represented a direct correlation between discretionary general fund dollars available and the proportion of supplemental funding contained in a budget unit.

For instance, Higher Education and the Department of Health and Hospitals (DHH) had the highest dollar levels of supplemental funding. Higher Education had approximately \$76 million in supplemental recommendations, and DHH had roughly \$79 million. In the case of DHH, the supplemental state general fund dollars are further matched with federal dollars and generate roughly \$224 million for expenditures on health care services.

The bills renewing the sales tax and increasing the cap on mineral revenues were enacted into law during the 2004 First Extraordinary Session. The combined total of the two pieces of legislation generated nearly \$211 million in state funds for HB 1's supplemental sections.

Although the supplemental funding mechanisms were enacted, several key budget areas remained unfunded. Further, other budget items were contingent on the passage of legislation as introduced in the 2004 Regular Session and subsequently amended. Such expenditure items are typically referred to as “unmet needs.” The table below highlights some of the unmet needs remaining after the FY05 Executive Budget was introduced.

#### **Major Unmet Needs Not Addressed by the Executive Budget for FY05**

Various Programs Previously Funded from "Surplus" TANF Funds In prior years, TANF has funded a variety of programs, including Drug Courts, CASA, Teen Pregnancy, After-School Tutorials, Truancy Programs, Job Skills/Training, Substance Abuse, and Domestic Abuse.	\$97 million
LSU Health Sciences Center - Health Care Services Division	\$59 million
Retirement Systems	\$49 million
Medicaid Program Preliminary review of the Executive Budget indicated unfunded needs in the Medicaid program totaled roughly \$160 million. This total included approximately \$48 million in State General Fund.	\$48 million
Minimum Foundation Program (MFP)	\$22.5 million
Final Judgments Against the State	\$20 million
TOPS Additional funding was needed due to expected tuition increases.	\$8.5 million

#### **Increases in Revenue Estimates for Fiscal Year 2004 and Fiscal Year 2005**

The Revenue Estimating Conference (REC), at its May 2004 meeting, increased revenue estimates for both FY04 and FY05. The estimate increases are primarily attributable to greater mineral revenues resulting from higher oil prices. The average price per barrel of oil will be well over \$30 for FY04, and it is estimated to be over \$28 for FY05. Additionally, increases in the price for natural gas will contribute to even higher severance tax collections for both FY04 and FY05.

##### **Fiscal Year 2004**

For FY04, REC increased revenue estimates for FY04 by \$197 million. Of this amount, *\$51 million was already incorporated into the budget for FY05* in the Supplemental section of HB 1. Thus, approximately \$146 million remained for other unmet needs.

##### **Fiscal Year 2005**

For FY05, REC increased revenues estimates by \$268 million. Of this amount, *\$160 million was already incorporated into the FY05 budget* in the Supplemental Section of HB 1 tied to the renewal of the sales tax on business utilities. Thus, approximately \$109 million was available for other unmet needs in FY05.

This resulted in the availability of roughly \$255 million in additional revenues for both the FY04 Supplemental Appropriation Bill (HB 1628) and the FY05 General Appropriation Bill (HB 1).

## Legislative Action on the Budget

As a result of the increase in revenues recognized at the May REC meeting, significant restorations and some enhancements were made to the proposed FY05 budget by the Legislature.

Major items restored or enhanced by the Legislature in the FY05 budget include the following adjustments *(the amounts below do not represent total funding for any one program; instead, the amounts represent the total funding restored or enhanced by the Legislature during the process)*:

Department of Health and Hospitals	\$101.6 million
Including \$42.8 million for the Medicaid program; \$1.7 million to fund the Health Insurance Flexibility and Accountability Initiative; and \$4.6 million to restore funding for four inpatient psychiatric units slated for closure in FY05 due to a lack of funding.	
LSU Health Sciences Center - Health Care Services Division	\$59.1 million
Restoration of TANF Initiatives	\$30.0 million
Including programs such as After School Tutorials, Teen Pregnancy Prevention, Drug Courts, Non-medical Substance Abuse services, CASA, etc.	
Higher Education Restoration	\$26.0 million
Full Funding of the Minimum Foundation Program	\$22.5 million
TOPS Full Funding	\$8.5 million
LSU Health Sciences Center - E. A. Conway Medical Center	\$5.5 million
Sheriffs' Housing of State Inmates	\$4.0 million
Health Care Workforce Development – Board of Regents	\$3.0 million
Truancy Means of Financing Substitution	\$2.4 million
La. Special Education Center Acquisitions, Major Repairs	\$1.8 million
City of New Orleans Public Services Support due to Casino	\$1.0 million
LSU Health Sciences Center – Shreveport	\$1.0 million
SenioRx Program Statewide Implementation	\$1.0 million

## **Overview of Funding in FY 2005 for Health Care Services**

### **Medicaid Program**

- Overall, the Medicaid program is adequately funded in FY 2005 at \$5.14 billion for reimbursements to health care providers of medical services to Medicaid clientele and the uninsured, with \$301 million in growth over the existing operating budget (EOB).
- Specific services were targeted for enhancements –
  - \$76.4 million for re-basing reimbursement rates for nursing home services (pending prior approval of the federal Centers for Medicare and Medicaid Services).
  - \$40.0 million to fully fund “outlier” payments in FY05 to cover the costs of extraordinary care for Medicaid patients exceeding the normal reimbursement rates.
  - \$4.4 million for increases in the reimbursement rates for pediatric dental services.
  - \$3.7 million for 66 “emergency” slots in the New Opportunities Waiver program.
  - \$1.8 million for an additional 230 slots in the various Medicaid Home and Community-based Services Waiver programs per the settlement agreement in the *Barthelemy v. Hood* lawsuit.

### **Charity Hospitals**

#### **(LSU Health Sciences Center – Health Care Service Division)**

- The Health Care Services Division (HCSD) faced a \$59.1 million shortfall in revenues for projected expenditures in FY 2005 in the original version of the budget.
- A series of steps were necessary to stall HCSD’s projected downsizing in FY 2005 until the state could develop a plan for the future provision of health care services in Louisiana.
  - The Legislature appropriated \$13.0 million for additional Medicaid claims payments to help HCSD narrow its budgetary gap. This action was based on HCSD’s leadership committing itself to aggressively certifying a greater percentage of its hospitals’ patient base for Medicaid eligibility.

- By reprioritizing spending on Uncompensated Care Costs (UCC) payments, HCSD will receive an additional \$18.7 million in UCC payments in FY05. To accomplish this, the state will delay implementing a plan to spread UCC payments between both state and non-state hospitals providing services to the uninsured. Further, the state will attempt to maximize every dollar available under the cap on federal financial participation in UCC payments.
  - Finally, a \$27.4 million State General Fund appropriation covers the final portion of the funding necessary to restore the remainder of HCSD services originally slated for closure in next year's budget.
- These additions by the Legislature result in a total FY05 estimated operating budget of \$846.2 million for HCSD. Thus, the proposed downsizing of emergency room services, closures of operating room beds, and closures or reductions in clinic-based services, including dental clinics, should not be necessary in FY05.

## **Overview of Funding in FY 2005 for Social Services**

### **Family Support**

- In the original version of HB 1, only two Temporary Assistance to Needy Families (TANF) initiatives programs were to receive funding in FY05: Public Pre-K (LA4) at \$35 million, and Private Pre-K at \$8.5 million. Only \$20 million of this funding was from the so-called “TANF surplus” of prior years, while the remainder came from the FY05 TANF block grant and State General Fund dollars.
- As the bill moved through the legislative process, the House provided \$20 million additional TANF dollars and \$5 million State General Fund as match for the maintenance of effort (MOE) to fund historical TANF initiatives from prior years: \$9.5 million for after-school tutoring; \$5.5 million for teen pregnancy prevention; \$5 million for drug courts; \$2.25 million for substance abuse counseling through the Office for Addictive Disorders; and \$2.75 million for mental health screening for at-risk children in the Office of Mental Health.
- On the Senate side, only two TANF changes were made. The substance abuse counseling program received an additional \$1.9 million increase to restore it to the FY04 level of \$4.2 million. Also, an additional \$3.0 million State General Fund substitution was made in LA4, and the freed up TANF funds were used to fund the Court-Appointed Special Advocates (CASA) program.
- It should be noted that although the prior-year TANF surplus money was only \$20 million, an additional \$28.5 million in TANF funds were used for the FY05 initiatives, which will be coming out of the state’s FY05 block grant. This could lead to the creation of a sizable deficit in the Child Care Assistance Program for FY06, because a portion (up to 20 percent) is taken off the top of the TANF block grant and transferred to Child Care each year. Since this money was used for the TANF initiatives programs for FY05, it will not be available for Child Care for FY06.

### **Community Services**

- The Child Welfare Services Program in the Office of Community Services has \$4.9 million added for FY05, due to increased caseload and attorney fees.

FY04 TANF Initiatives		FY05 TANF Initiatives		FY05 Means Of Financing	
		Senate Finance		TANF	State Gen. Fund
<u>Literacy</u>					
Public Pre-K	\$ 39,000,000	\$ 35,000,000	\$ 17,000,000	\$ 18,000,000	
Private Pre-K	\$ 8,500,000	\$ 8,500,000	\$ 8,500,000	\$ -	
Drop-out Prevention	\$ 4,500,000	\$ -	\$ -	\$ -	
After School	\$ 9,500,000	\$ 9,500,000	\$ 9,500,000	\$ -	
Adult Literacy	\$ 1,500,000	\$ -	\$ -	\$ -	
Truancy	\$ 2,430,193	\$ -	\$ -	\$ -	
<b>TOTAL LITERACY</b>	<b>\$ 65,430,193</b>	<b>\$ 53,000,000</b>	<b>\$ 35,000,000</b>	<b>\$ 35,000,000</b>	<b>\$ 18,000,000</b>
<u>Employment</u>					
Job Skills	\$ 11,750,000	\$ -	\$ -	\$ -	
Microenterprise Development	\$ 641,666	\$ -	\$ -	\$ -	
Incarcerated Job Skills	\$ 2,000,000	\$ -	\$ -	\$ -	
Post-release programs	\$ 4,500,000	\$ -	\$ -	\$ -	
<b>TOTAL EMPLOYMENT</b>	<b>\$ 18,891,666</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<u>Family Stability</u>					
Teen Pregnancy	\$ 6,500,000	\$ 5,500,000	\$ 5,500,000	\$ -	
Domestic Abuse	\$ 3,166,666	\$ -	\$ -	\$ -	
Community Response	\$ 3,000,000	\$ -	\$ -	\$ -	
Fatherhood Initiatives	\$ 750,000	\$ -	\$ -	\$ -	
Family Strengthening	\$ 500,000	\$ -	\$ -	\$ -	
<b>CASA</b>	<b>\$ 4,830,000</b>	<b>\$ 3,000,000</b>	<b>\$ 3,000,000</b>	<b>\$ -</b>	<b>\$ -</b>
Drug Courts	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ -	
Substance Abuse/DHH-OAD	\$ 4,166,666	\$ 2,250,000	\$ 2,250,000	\$ 4,166,666	
Housing Initiatives	\$ -	\$ -	\$ -	\$ -	
At-risk Children/DHH-OMH	\$ 1,750,000	\$ 2,750,000	\$ 2,750,000	\$ 2,750,000	
Abortion Alternatives	\$ 1,500,000	\$ -	\$ -	\$ -	
<b>TOTAL FAMILY STABILITY</b>	<b>\$ 31,163,332</b>	<b>\$ 15,500,000</b>	<b>\$ 20,416,666</b>	<b>\$ 13,500,000</b>	<b>\$ 6,916,666</b>
<u>Other</u>					
DOA Oversight	\$ 1,600,000	\$ -	\$ -	\$ -	
Caseworker Training	\$ 750,000	\$ -	\$ -	\$ -	
Initiative Implementation	\$ -	\$ -	\$ -	\$ -	
<b>TOTAL OTHER</b>	<b>\$ 2,350,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>GRAND TOTAL</b>	<b>\$ 117,835,191</b>	<b>\$ 68,500,000</b>	<b>\$ 73,416,666</b>	<b>\$ 48,500,000</b>	<b>\$ 24,916,666</b>

TANF

SGF (Direct)

TANF Source:  
 \$20 m. surplus  
 \$23.5 m. FY05  
 \$5 m. FY04  
 carryover

\* Plus \$14 m. 8(g).

## **Overview of Funding in FY 2005 for Educational Services**

### **K-12 Education**

- The Legislature fully funded the Minimum Foundation Program (MFP) formula for providing basic state aid to local schools. The MFP is funded at \$2.6 billion for FY05, an increase of about \$61.0 million over the budget for FY04.
- Still, school districts will have to absorb the rising costs of retirement and health insurance.
- House Bill 1 also contains \$49 million to continue the LA4 Program's public school classes for 4-year-olds. The following revenues in FY05 will fund LA4: State General Fund (\$18 million); TANF (\$17 million); and 8(g) Fund (\$14 million). Previously, TANF funding comprised most of this program's means of financing.
- Further, the Legislature has once again provided \$8.5 million in TANF money for private school pre-K classes in FY05.
- The After School Enrichment Program is slated to receive \$9.5 million in TANF funding in FY05.
- Another TANF-funded initiative, the Teen Pregnancy Prevention Program, will be financed at \$5.5 million next year.
- An additional \$2.2 million has been appropriated for Type 2 Charter Schools in order to provide for increased student enrollment in FY05. It is anticipated that 3,400 students will attend eight (8) Type 2 Charter Schools in FY05, at a cost of \$22.4 million.
- House Bill 1 provides \$1.7 million in new funding for nationally certified teachers, school psychologists and school counselors.
- The new Recovery School District has been established and funded at \$1.6 million in order to assist failed schools.
- The Jobs for America's Graduates Program (JAG LA) will be funded at \$0.5 million in FY05.

### **TOPS, Tuition and Fees**

- The Tuition Opportunity Program for Students (TOPS) is fully funded at \$113.8 million for 41,000 students in FY05, enough to cover the three percent tuition increase expected at the state's public colleges and universities (discussed below). This tuition



increase received Joint Legislative Committee on the Budget approval in May and funding was provided to cover the TOPS portion in HB 1.

- House Bill 1062, which was passed by the Legislature, allows the state's colleges and universities to impose up to a four percent "operational fee" in addition to the earlier approved three percent tuition increase. The fee shall not be a cost payable by the state under a TOPS award, which is estimated to be as high as \$18 million. Both the fee increase and the earlier three percent tuition hike are intended to offset increased mandated costs throughout Higher Education and fund educational enhancements at the various campuses.

### **Higher Education**

- The Legislature appropriated an additional \$26.0 million to Higher Education to cover increasing mandated costs such as retirement contributions, health insurance contributions and merit increases.
- The budget for the Board of Regents includes \$3.2 million from the Higher Education Initiatives Fund for the Louisiana Optical Network Initiative (LONI), a statewide optical fiber network that would allow the networking of computers with other research universities. HB 2, the Capital Outlay Bill, also contains \$8.5 million (\$5 million in non-recurring State General Fund and \$3.5 million in Priority 1 General Obligation Bonds) for acquisitions, including LONI.
- House Bill 1 continues \$5.0 million in funding for the Community and Technical Colleges Development Pool Fund.
- House Bill 1 contains \$3 million in the Board of Regents' budget for the Health Care Workforce Development initiative.
- The Library and Scientific Acquisitions Fund is funded at \$2.9 million in HB 1, and at \$8.5 million in HB 2 (the Capital Outlay Bill). A portion of the Fund's HB 2 appropriation is expected to be used for LONI (see above).
- House Bill 1062 allows each higher education management board to assess an operational fee at each institution in an amount not to exceed four percent of the current total charges for tuition and fees. The fee shall not be a cost payable by the state under a Tuition Opportunity Program award. This increase is in addition to the three percent increase approved by the Joint Legislative Committee on the Budget in May. Language in HB 1062 directed that these funds are first used for mandated costs at each institution, which would allow the previously approved three percent tuition increase to be used for the enhancement of educational services at each institution.

## **Overview of Funding in FY 2005 for Public Safety and Corrections Services**

### **Corrections Services**

- The most significant change in the Department of Corrections for FY05 is the separation of correctional systems between the adult and juvenile populations. For all legal and budgetary purposes, these are now two separate entities.
- Another important issue in both Adult and Juvenile Corrections has been the closure of the Swanson Correctional Center for Youth – Madison Parish Unit (formerly known as Tallulah). Adult Corrections plans to take over the facility to establish the Steve Hoyle Rehabilitation Center. This center will house approximately 250 young adult inmates with substance abuse problems. Approximately \$13.7 million has been budgeted for this project.

### **Public Safety Services**

- For FY05, Public Safety has received \$13.8 million in federal homeland security funds in the Office of State Police from the Office of Emergency Preparedness. This funding will be used to enhance ongoing homeland security efforts and to provide for the purchase of specialized equipment for local governments.
- House Bill 1 contains an increase of \$0.7 million in statutory dedications from the Sex Offender Registry Technology Fund for modifications to the Sex Offender and Child Predator Registry.

### **Youth Services**

- Juveniles have been transferred from Swanson-Madison to other juvenile institutions and elsewhere in the correctional system. Pursuant to Acts 14 and 1225 of 2003, these juveniles' education funding formerly budgeted in the Department of Education, Special School District #2 (Swanson-Madison) has followed them. For FY05, approximately \$3.7 million of this money has been transferred from SSD#2 to Youth Services.

## **Overview of Funding in FY 2005 for General Government Services**

### **Executive**

- The Department of Military Affairs will receive an additional \$15.4 million in FY05 for the Law Enforcement Terrorism Prevention Program and the Urban Area Security Initiatives in Baton Rouge.
- Overall, funding for the various Senior Centers, Councils on Aging, and other Senior programs in the Office of Elderly Affairs will increase by \$1.7 million in FY05.
- In FY05, funding for the Louisiana Indigent Assistance Board will increase by \$1.5 million. Of this amount, district indigent defender boards will receive \$1.0 million in formula grants. The remaining \$0.5 million is to be used for trial, appellate, and post-conviction services to indigent defendants in capital cases.
- The budget for the SenioRx Drug Assistance Program will increase by \$1.0 million in FY05 to expand the program from regional pilot programs to a statewide initiative, thereby increasing the total budget for the SenioRx program to \$1.4 million.
- The Office on Women's Policy will receive an additional \$0.8 million in FY05 for continuation of the children's services domestic violence contracts, which were formerly funded through the TANF program.

### **Economic Development**

- The FY05 budget contains \$10.0 million for the creation of the Governor's Economic Development Rapid Response Program to provide a pool of funding for securing economic development opportunities for the state.
- House Bill No. 619 provides for a loan in an amount not to exceed \$7.5 million from the Louisiana Economic Development Fund to the Louisiana Stadium and Exposition District (LSED) for the purpose of meeting the current year payment obligation for the New Orleans Saints. The bill further provides for the repayment of the loan in the future from revenues received by LSED in excess of the revenues generated in FY05, adjusted by a factor equal to the Consumer Price Index.
- The funding for the three wet lab facilities will increase by \$1.9 million to a total of \$2.2 million in FY05. These facilities, located in Baton Rouge, New Orleans and Shreveport, provide the necessary laboratory environment for start-up biotech enterprises to conduct research and development activities.

- The funding for the Good Manufacturing Practices (GMP) Facilities in New Orleans and Shreveport will increase by \$1.1 million to a total of \$1.9 million in FY05. These facilities support core labs to advance the manufacturing of gene therapies under FDA-required conditions.

### **Culture, Recreation and Tourism**

- The FY05 budget contains \$2.0 million and 19 positions for the operating expenses of the South Toledo State Park that is scheduled to open in August 2004.

### **Labor**

- In HB 1, the department is directed to identify and train persons eligible for training services funded from the Workforce Development Training Account (WDTA) of the Incumbent Worker Training Program (IWTP), as funded by private entities. The training plan must be submitted to and approved by both the Commissioner of Administration and the Joint Legislative Committee on the Budget (JLCB). Further, HB 1 requires that Labor submit monthly status and progress reports to JLCB in order to verify that the health care worker training plan specified has begun.
- In FY05, the Incumbent Worker Training Program will be a separate program within the Office of Workforce Development, comprised of 31 positions and \$41.6 million. This new program was carved out of the Job Training and Placement Program within the Office of Workforce Development.
- The Office of Workforce Development in FY05 will redesign and automate the Unemployment Insurance Tax and Benefits System, spending an additional \$5.3 million of statutorily dedicated funds.
- The FY05 budget contains \$3.3 million in TANF funding for administration, operation costs, and implementation costs of the Strategies to Empower People Program (STEP).
- House Bill 1 directs the department to identify \$3.0 million of the Department of Labor's FY05 budget for post-release skills programs to enable newly released inmates to gain employment and life skills.

## **Overview of Funding in FY 2005 for Other Government Services**

### **Retirement Systems**

- School boards and state government will not have to pay as much as earlier anticipated to make employer's contributions to the state retirement systems, because the Legislature passed SB 622 to refinance about \$1.7 billion of debt in the retirement systems for teachers and state employees. The passage of this bill will save local school systems \$52 million in FY05. Still, school districts will struggle to meet retirement costs that are rising from 13.8 percent of payroll in the current year to 15.5 percent in FY05, an increase of almost \$50 million. The situation, however, would have been far worse had the Legislature not agreed to the plan for requiring retirement system debt to be paid back by 2029. The bill places a long-term financial burden on the state, adding about \$6.4 billion to the systems' Unfunded Accrued Liability (\$3.7 billion for state employees and \$2.7 billion for teachers).
- A \$10.4 million appropriation is contained in HB 1 to offset increased employer contributions for retirement benefits for most state agencies. It should be noted, however, that higher education institutions, including all state colleges and universities, the LSU Health Sciences Center campuses (in New Orleans, Shreveport and Monroe), and HCSD will receive none of these funds since the Legislature already addressed their retirement needs along with other mandated costs. Only those higher education institutions without student-based revenues will participate in the funding pool.